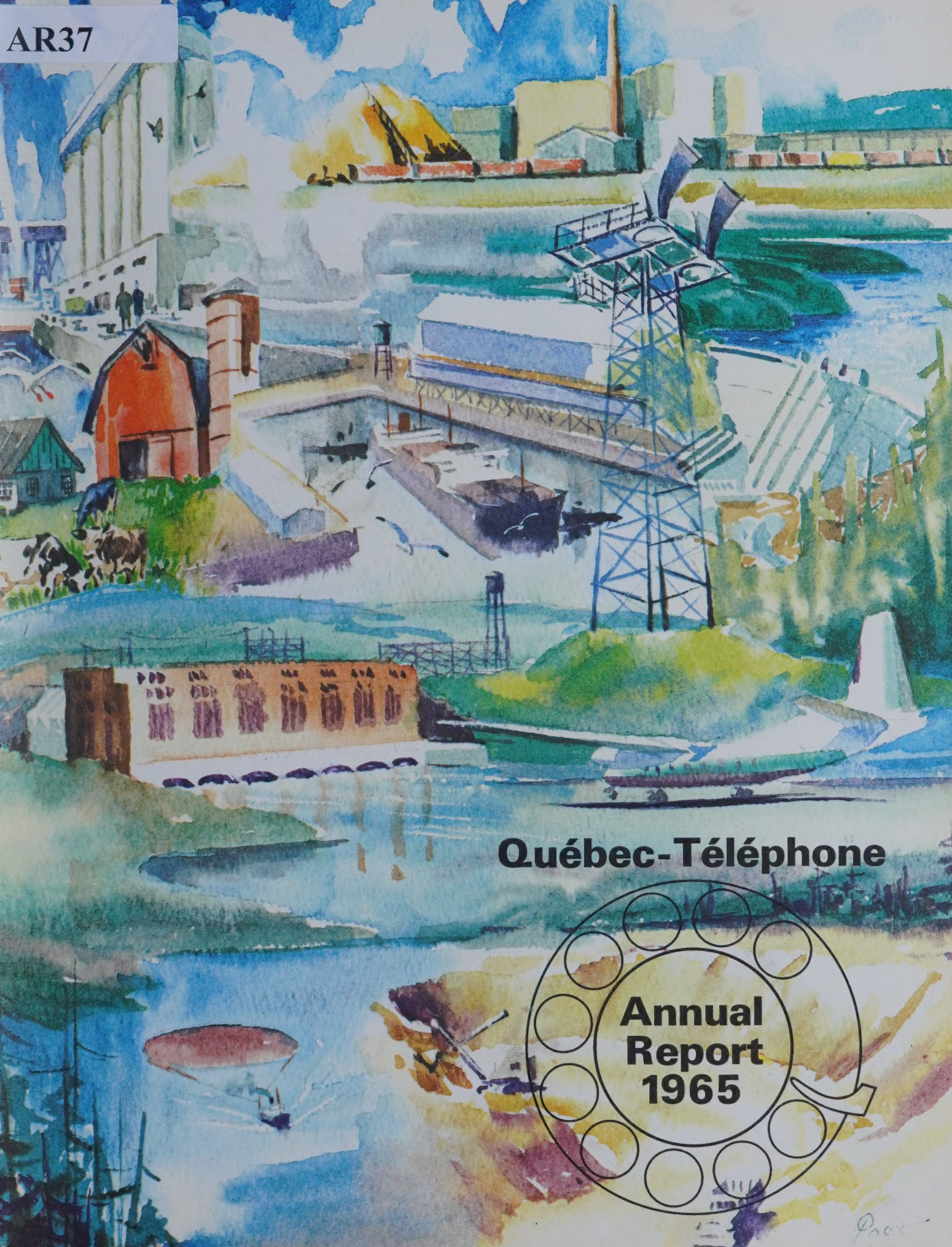


AR37



Québec-Téléphone

**Annual
Report
1965**

Head Office: 6 St-Jean Street, Rimouski, Que.



Officers of Québec-Téléphone, from left to right:
Yvon Côté, Jean-Marc Tremblay, J.-Réal Bernier, B.-A. Bénéteau, Julien Thuot,
Hon. Jules-A. Brillant, Chairman of the Board, Jacques Brillant, President, Norman Gendreau,
Henri Dionne, Maurice Martin and Freeman Cecil Doak.

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Board of directors

Honorable Jules A. Brillant,
C.B.E., M.L.C.*
J. Réal Bernier, B.A., M.Com.*
Jacques Brillant,
B.A., Lic.Soc. & Pol.Sc.**
Aubert Brillant, B.Com.*
Carol Brillant*
Freeman Cecil Doak, Eng.*
Paul-Emile Gagnon, Q.C.
Norman Gendreau*
Maurice Martin, B.A.
Claude Pratte, B.A., LL.L.
Henry Arthur Sewell

Officers

Honorable Jules A. Brillant,
C.B.E., M.L.C., Chairman of the Board
Jacques Brillant, President
Norman Gendreau, 1st Vice-President,
Finance and Treasurer
Freeman Cecil Doak,
Executive Vice-President
B. A. Bénéteau,
Vice-President, Operations
Maurice Martin,
Vice-President, Public Relations
Yvon Côté, Secretary
Julien Thuot, Assistant to the President
J. Réal Bernier, Assistant
Vice-President and Comptroller
Jean-Marc Tremblay,
Assistant Secretary
Henri Dionne, Director of Personnel

Transfer agent and registrar

Preferred and common stock:

Administration and Trust Company,
10 St. James Street West, Montreal.

*Common stock and 5 1/2 % preferred stock,
1958 and 1961 Series, are listed on the
Montreal Stock Exchange and 5 % preferred
stock, 1950, 1951, 1955 and 1956 Series,
are listed on the Canadian Stock Exchange.*

Bankers

National Canadian Bank
Provincial Bank of Canada
Bank of Montreal

Subsidiary

The Bonaventure and Gaspé
Telephone Company, Limited

Si vous préférez un exemplaire du rapport en français, veuillez écrire à:
Québec-Téléphone, 6, rue Saint-Jean, Rimouski, Québec.

*Executive Committee Member
**President of the Executive Committee

MAR 29, 1966

THE YEAR AT A GLANCE

| | 1965 | 1964 | Increase or (Decrease) |
|---|--------------|--------------|------------------------------|
| Shareholders' equity | | | |
| Earnings available for common shares..... | \$ 1,785,393 | \$ 1,758,768 | 1.5% |
| Per share outstanding at year end..... | \$ 1.20 | \$ 1.23 | (0.03¢) |
| Dividends paid per common share..... | 0.70¢ | 0.675¢ | 0.025¢ |
| Number of shares outstanding..... | 1,487,172 | 1,434,832 | 52,340 |
| Dividends paid to preferred and common shareholders..... | \$ 1,531,369 | \$ 1,640,494 | (\$109,125) |
| Ratio to net earnings..... | 67.0% | 75.2% | (8.2%) |
| Number of preferred and common shareholders.. | 3,465 | 3,006 | 459 |
| Earnings per preferred share..... | \$4.18 | \$5.53 | (\$1.35) |
| Earnings ratios | | | |
| Interest on funded debt times earned..... | 6.0 | 5.6 | 0.4 |
| Preferred dividends times earned..... | 4.6 | 5.1 | (0.5) |
| Telephone plant | | | |
| Number of long distance calls..... | 9,587,148 | 8,776,462 | 9.2% |
| Telephones in service..... | 108,791 | 99,168 | 9,623 |
| Per cent dial operated..... | 71.3 | 66.7 | 4.6 |
| Total plant investment..... | \$72,555,016 | \$63,620,412 | \$8,934,604 |
| Construction expenditures..... | \$ 9,881,672 | \$ 8,307,287 | \$1,574,385 |
| Number of central offices..... | 133 | 130 | 3 |
| Financial results | | | |
| Total operating revenues..... | \$16,187,312 | \$14,834,430 | 9.1% |
| Total operating expenses and fixed charges..... | \$11,404,362 | \$10,330,930 | 10.4% |
| Income Taxes..... | \$ 2,497,543 | \$ 2,322,912 | 7.5% |
| Net earnings..... | \$ 2,285,407 | \$ 2,180,588 | 4.8% |
| Personnel | | | |
| Average number of employees..... | 1,604 | 1,577 | 27 |
| Salaries and wages..... | \$ 6,191,170 | \$ 5,572,880 | \$ 618,290 |

TELEPHONE GROWTH

During the year, the Company passed two milestones. The 100,000 mark for telephones in service was passed in February, and by year-end, total telephones reached 108,791. This represents an increase of 9,623 for the year. The second milestone was passed in October when the plant investment exceeded \$70 million. For the year, plant investment increased by \$8,934,604, one of the largest yearly increases on record, to a total of \$72,555,016. It is interesting to note that the Company reached its first \$10 million in plant investment in 1954 after 27 years; the \$70 million mark was attained in only eleven years.



THE PRESIDENT'S MESSAGE



In 1965, your company once again shared in the expansion so evident in the Quebec economy and throughout Canada. The figures and statistics appearing elsewhere in this annual report show notable accomplishments of Québec-Téléphone in all its operations.

Your company, it will be seen, has this year again increased its net profit. There are many reasons for this gain. The number of telephones in service has reached a record level. And, despite the introduction of extended-area service between several neighboring communities, the number of long-distance telephone calls has continued to grow.

Salaries paid in 1965 similarly fit the pattern of growth. Substantially increased during the year, these continue to compare very favorably with salaries generally paid by the telephone industry in Canada. Construction expenditures reached a new high during the year. Your company made considerable progress in the modernization and automation of its system.

In 1965, expenses increased 11% while our revenues were up by 9.1%. The higher expenses resulted from a com-

bination of factors described in full detail elsewhere in this report. To cope with the ever-mounting operating costs, your company has applied to the Quebec Public Service Board for permission to increase local service rates.

The highlight of the Company's long range program is to provide its customers with reliable high-grade transmission with modern and attractive equipment. The expansion of facilities will be fully coordinated with the current modernization and automation program, the objective of which is to control operating expenses and make telephone service more efficient. Our construction programs are consistently planned to meet these objectives. This will provide the earnings necessary to obtain the high volume of new capital required to finance the capital expenditure program of the Company.

In 1966 new construction will require an estimated pay-out of \$11,000,000. The major item of this new construction is the establishment of a crossbar exchange at Rimouski which will enable the introduction of customer-dial of toll calls in the Lower St. Lawrence and North Shore areas. Accounting operations will be mechanized by the installation of a computer system at Rimouski. This will result in greater billing accuracy, a more detailed billing statement for the customers and will provide management with increased statistical and control information.

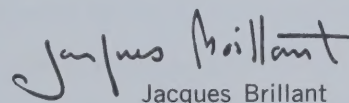
Our mounting capital investment is making a significant contribution to the Eastern Quebec economy. Capital expenditures have enabled us to build an up-to-date and efficient telephone communications system covering a vast territory. Your company is one of the most thriving communications concerns in the country. Nevertheless, despite the extent and sophistication of our network and the excellence of our equipment, we must never for a moment accept our present favorable position as invulnerable. The past few years have seen the introduction of many changes. New ideas and new techniques quickly take hold. We must lead in the acceptance of these new ideas and never let ourselves be left behind by change.

We must replace the traditional notion of telephone service with the much broader concept of Total Communications. We must be ready to meet the growing requirements of our service

area. Our objective must be to build major communications routes capable of carrying every kind of intelligence that can be translated into suitable electrical impulses.

This, for Québec-Téléphone, is the challenge of the future. Solely by continued emphasis on research and development and by readiness to think in terms of Total Communications can we be assured of continued success in the years to come. This is the price we must pay to retain the confidence of our subscribers. That this confidence exists was amply demonstrated when, earlier this year, the Board of Directors authorized the issue of 50,000 common shares which were made available first to the Company's subscribers. An unprecedented success, the issue was fully sold in a matter of days. Furthermore, many of our personnel took advantage of our employee stock option plan to become shareholders.

In closing, I would like to thank employees at all levels for their efficiency and their contribution towards the realization of the Company's objective: — to provide the territory we serve with the type of service required to meet the legitimate aspirations of a modern Quebec.

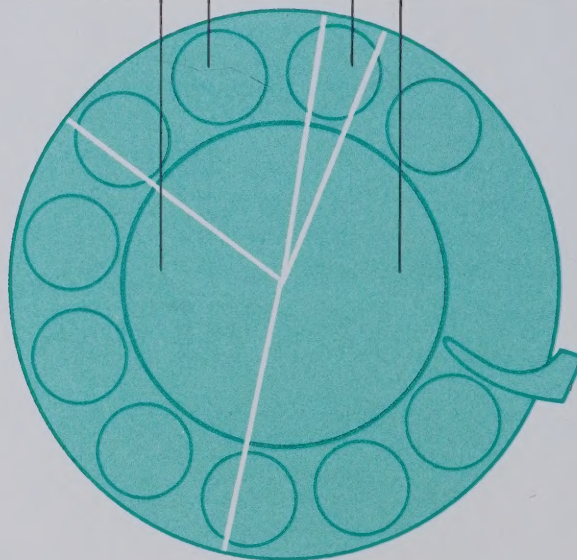


Jacques Brillant

THE 1965 REVENUE DOLLAR

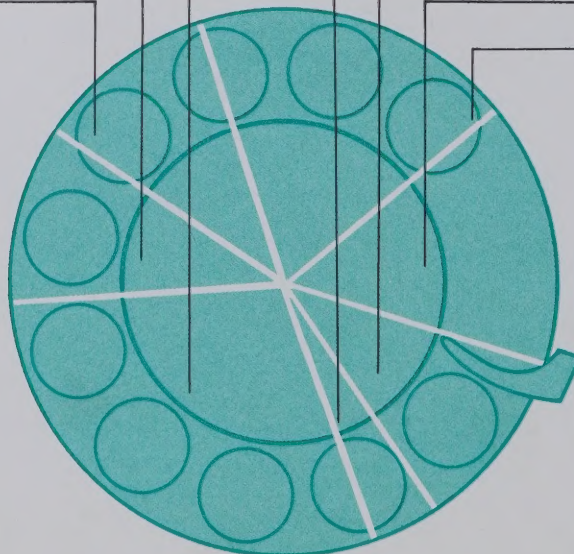
where it came from

17¢ Private wire service _____ 3¢ Other sources
32¢ Local service _____ 48¢ Long distance service



where it was used

29¢ Payroll and employee benefits _____ 4¢ Retained in business
9¢ Dividends _____ 11¢ Materials and supplies
10¢ Interest _____ 16¢ Depreciation
19¢ Taxes of all kinds



DIRECTORS' REPORT TO THE SHAREHOLDERS

The steady growth and progress which characterize the Company's service area were maintained, plant and property were expanded and improved to meet the growing need of our customers. We can again report to you that we had more customers than ever before, greater use of toll service, higher total revenues, and more net earnings, but the earnings on a per share basis reflect the issue of additional preferred shares and common shares during the year.

Revenues, Expenses and Dividends

The net earnings for the year amounted to \$2,285,407, as compared with \$2,180,588 last year, an increase of 4.8%. After dividend requirements on the preferred shares, the earnings represent \$1.20 per common share as against \$1.23 in 1964.

Total revenues of \$16,187,312 were 9.1% more than in 1964, reflecting the upward trend of business generally, the ever increasing number of telephones in service and a substantial increase in the number of long distance messages. An analysis of gross revenues, showing the respective percentages of increase over 1964, follows:

| | 1965 | 1964 | % Increase or (Decrease) |
|----------------------------|---------------------|---------------------|-----------------------------|
| Local service | \$ 5,227,050 | \$ 4,668,154 | 12.0 |
| Toll service | 8,004,165 | 7,156,796 | 11.8 |
| Private wire service | 2,512,996 | 2,544,944 | (1.3) |
| Telegraph service | 183,825 | 178,455 | 3.0 |
| Miscellaneous | 259,276 | 286,081 | (9.4) |
| | <u>\$16,187,312</u> | <u>\$14,834,430</u> | <u>9.1</u> |

Operating expenses have been the subject of careful control, the increase of 11.0% from \$8,741,016 in 1964 to \$9,704,333 in 1965, resulting chiefly from higher wage levels, increased taxes and the greater maintenance and depreciation requirements of the rapidly growing telephone plant.

Regular dividends were paid on the preferred shares and payment of dividends on the common shares was at the rate of 70 cents per share, compared

with 67½ cents per share in 1964. After provision for the dividends on all classes of capital stock, the amount of \$754,038 was added to Retained Earnings and is invested in the business.

Taxes

The telephone business generates a substantial flow of tax dollars that helps to defray the cost of government at all levels. Few industries are taxed so heavily.

Out of the Company's total 1965 revenues of \$16,187,312, the Company's taxes amounted to \$2,996,666. In addition, we collected for the Federal and Provincial governments a total of \$1,196,299 from our customers and employees. About 19 cents of every dollar from customers now go for taxes, or to put it another way, the average Company telephone in service is bringing about \$32 per year to governments.

Financing

The need to raise additional capital to repay short term notes issued to finance, in part, the 1964 capital expenditures resulted in the sale in March of \$8,000,000

par value 4¾% Cumulative Redeemable Preferred Shares of the 1965 Series and 50,000 Common Shares. The preferred shares of the 1965 series were offered by investment dealers in most provinces of Canada but your Board of Directors concluded that the interests of the Company would best be served if the Company's subscribers would be given preference in the purchase of the common shares. It is pleasing to note that the preferred and common share issues were successfully marketed.



The net proceeds from sale of the preferred shares of the 1965 series and of 50,000 common shares were used to refund on favourable terms the \$4,794,220 par value 5½% Cumulative Sinking Fund Redeemable Preferred Shares of the 1958 and 1961 Series and to repay short term loans then outstanding.

Additional capital required to finance the 1965 construction program was raised through the sale in September of \$5,000,000 principal amount 6% 1st Mortgage Sinking Fund Bonds Series "I".

New construction

Expenditures for plant additions and improvements to existing facilities and for the acquisition of independently owned telephone systems were at a record level this year and amounted to \$9,881,672. After deducting the cost of facilities removed from service during the year, net additions to the telephone plant totaled \$8,934,604. This brought total investment in telephone plant to \$72,555,016.

This substantial program enabled the Company to keep pace with customer demands not only for basic telephone service but also for new and improved services. At the end of 1965, we had 108,791 telephones in service, an increase of 9,623 over last year, including 1,675 telephones gained by acquisitions.

The microwave structure in the Mata-pedia Valley was extended to New Carlisle and Gaspé, thus substantially increasing our toll facilities in the Gaspé Peninsula. A second microwave structure was erected to meet the increase in traffic requirements between Rimouski and Baie Comeau. A major radio system is being established to substantially increase toll facilities to all exchanges in the counties of Beauce, Lotbinière and Dorchester. A mobile radio network providing two way communication with the public telephone system was designed and placed in service to meet the particular communication requirements of the Quebec Provincial Police. In pursuance of the mechanization program, 9 manual offices were converted to dial; New Richmond and New Carlisle were two of the larger exchanges in this program. A modern local and toll switching machine was established at Donnacona with extended area service to the surrounding exchanges. The telephone plant in the territory purchased from La Cie de Téléphone de St-Philémon Enr. in 1964 was completely rebuilt in anticipation of its automation early in 1966. The system of Val Alain, another company purchased in 1964, was automated in 1965.

Seven new buildings were erected during the year while a major addition

was made to the Rimouski exchange to house the equipment for the primary centre to be placed in service in 1966.

In addition to these major projects, large investments were also required for important extensions to central office equipment, outside plant and toll facilities to meet the widespread growth throughout the Company's service area.

The Purchase of Four Telephone Companies

During 1965, Québec-Téléphone acquired four telephone companies in territory adjacent to its western division, namely: Le Syndicat du Téléphone de Beaurivage, La Compagnie de Téléphone de Gentilly Limitée, Le Syndicat Coopératif de Téléphone de Villers et Ste-Gertrude, and Téléphone Ste-Angèle Inc.

At the time of its purchase, the first of these companies had 458 telephones in service in the parishes of St-Patrice de Beaurivage and St-Sylvestre, Lotbinière County. The other three companies had at the end of 1965 a total of 1,217 telephones in operation in the area of the new city of Bécancour, the site of SID-BEC, Quebec's future steel complex.

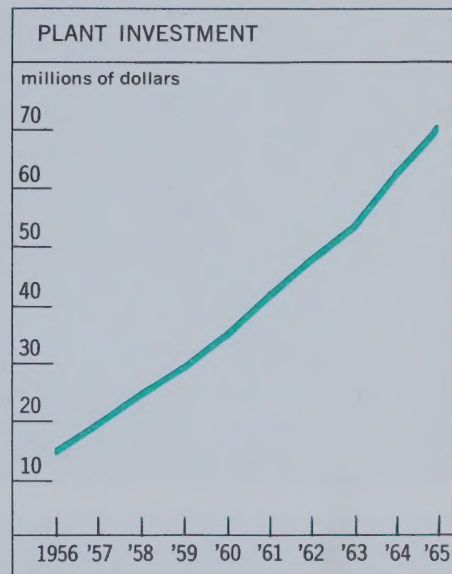
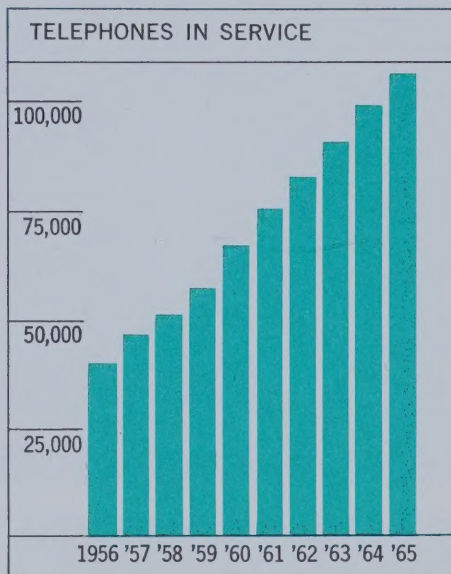
With the exception of the Téléphone Ste-Angèle Inc. network, the service provided was of the "magneto" type and Québec-Téléphone plans to modernize

these installations and provide automatic service in the near future. A decisive step in this direction was taken when the Gentilly exchange was converted to automatic crossbar on December 19, 1965.

Marketing of Special Services

In addition to its efficient telephone system, Québec-Téléphone offers its subscribers a wide range of special services. In 1965, sales of these services totaled \$453,568, an increase of 15.6% over the previous year.

These special services involve equipment designed to meet a variety of specific requirements. They are of particular interest to businessmen requiring speedy access to and rapid transmission of all types of information to business concerns operating in a huge territory,



100,000th TELEPHONE in the Québec-Téléphone system was connected in early 1965 to the offices of Mayor Roger Dion of Matane.

To mark the occasion, the Company presented Mayor Dion with a golden telephone. On behalf of Québec-Téléphone management, B. A. Bénéteau, vice-president, operations, made the presentation.



and to public and government services whose widespread operations involve coordination and prompt effective intercommunication.

Above all, Québec-Téléphone offers its subscribers equipment which considerably extends the scope of basic telephone service. For example, the AMPLI-PHONE enables several persons together in one room to take part in the same telephone conversation; the AUTOMATIC RECORD AND REPLY SYSTEM permits a subscriber to receive and record a message; RAPIDIAL makes it possible to pre-record for automatic dialing up to 290 numbers with a maximum of 14 digits each; the PAGEMASTER POCKET RECEIVER serves to summon to the telephone the person carrying the unit; the MOBILE TELEPHONE enables deliverymen, for example, to keep in constant touch with their home-base.

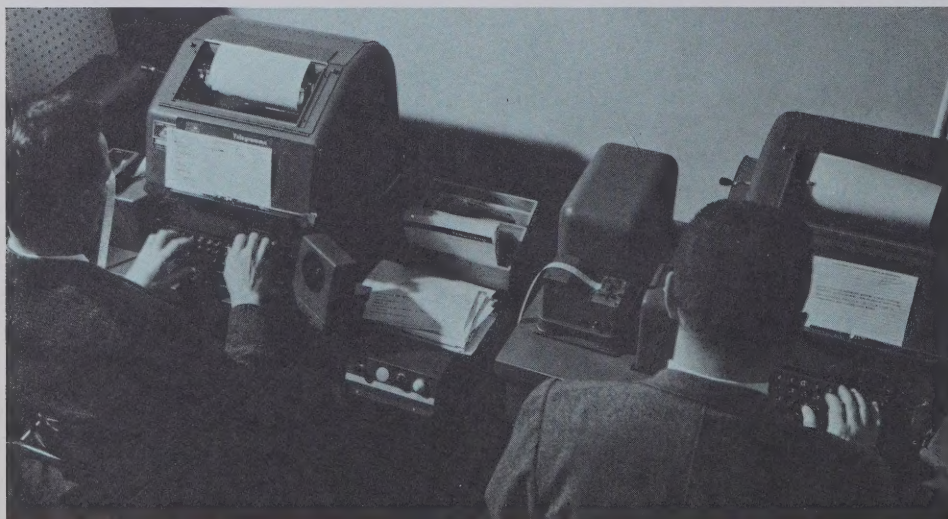
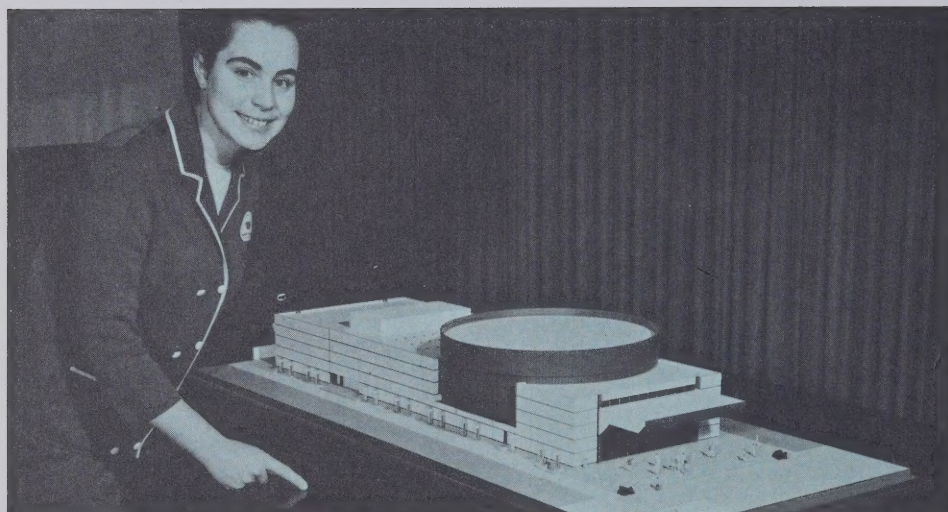
For transmission of documents, plans, data, graphs, etc., Québec-Téléphone has specialized equipment available. The Company has its own TELEX, TWX and TELETYPE networks. Hand-written messages may be sent by TELESRIPT; the DATA-PHONE transmits data; DATA-SPEED sends information directly from teleprinters or computers at 1,000 words per minute; the FACSIMILE service transmits photographs, drawings and other documents.

Québec-Téléphone also supplies the equipment required for distribution of television programs carried by community antennae.

In the interests of community safety, Québec-Téléphone operates EMERGENCY SERVICES in several communities. Easily-identifiable callboxes connected to the regular telephone network are available to citizens for emergency calls to police or fire departments; the MOBILE RADIOTELEPHONE permits the establishment of voice communications between vehicles and their home-base. In addition, some specialized systems also permit the vehicle operator to dial directly any local telephone subscriber or to place at will local and long distance calls. A network recently installed and leased by our Company to the Quebec Provincial Police is typical of such a system.

Administrative Changes

During the past year, the Company found it necessary to modify its administrative structure so as to provide separate services for both the personnel and public relations departments. Maurice Martin was appointed vice-president in charge of public relations, while former director of construction Henri Dionne was named personnel director.



Personnel

Wages and salaries, including labor costs chargeable to new construction, paid out by Québec-Téléphone during 1965, totaled \$6,191,170 or \$618,290 more than in 1964. The increase is explained in part by the general readjustment of salaries which took place in May as a result of the rise in the cost of living index. This readjustment entailed for the Company a supplementary expenditure of almost a quarter of a million dollars for the year. Furthermore, the average number of employees grew from 1577 in 1964, to 1604 in 1965.

In order to assist young people entering the labor market to acquire, with the minimum of delay, professional training that could ultimately qualify them for positions of responsibility, the Company in 1965 placed at the disposal of the Ministry of Education all the necessary equipment as well as the most highly qualified instructors which it could recruit. The training provided by these instructors will enable about 50 young men and women each year to pursue careers with one or other of the Canadian telephone companies.

With a similar end in view, a management development course for Québec-Téléphone employees was launched July

EXPO 67 — the Canadian telephone industry will be well represented at the 1967 Universal Exposition to be held in Montreal. A model of the Telephone Association of Canada pavilion was unveiled in 1965.

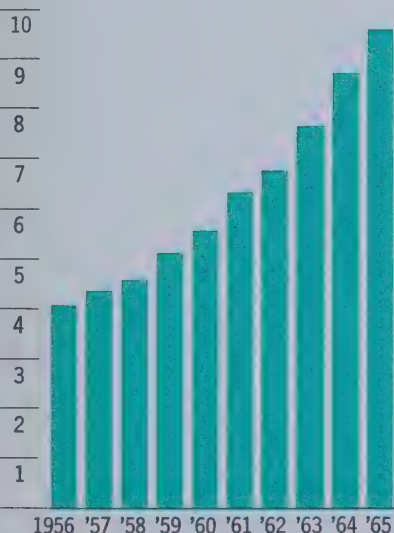
NEW ADMINISTRATIVE TECHNIQUES included the introduction this year of a management development course for Québec-Téléphone supervisory personnel. Purpose of the course is to provide department heads and supervisors with a clearer insight into the inter-relationship of job functions within the company.

TELEGRAPH FACILITIES are, together with the telephone and the various communications services associated with it, part and parcel of the service that Québec-Téléphone provides for the population in its territory. From Tadoussac to Blanc Sablon, the company's telegraph line stretches for miles and miles on the North Shore. Telegraph service is also provided throughout the major part of the northern section of the Gaspé Peninsula.



LONG DISTANCE CALLS

millions



penditures will be required to meet the service growth and build into our plant the necessary improvements resulting from research in communications. Our automation program for local service will be stepped up to meet general increase in material and labour costs. It is expected that this overall plan should be completed in the early nineteen seventies. One of the objectives of our long range plan is to enable the Company to offer, as soon as possible, to its entire service area, not only high grade toll facilities, but also direct distance dialing, mobile telephone radio and other non-voice services such as private leased wire facilities for the transmission of data, teletype, facsimile, radio and television.

Conclusion

The Company serves a growing area abundantly supplied with water, forest and mineral resources. In the year immediately before us and the decade ahead, our progress should be excellent.

For the Board of Directors

Jacques Brillant
Jacques Brillant
President

BÉCANCOUR WENT AUTOMATIC as a history-making telephone conversation inaugurated the new Québec-Téléphone automatic exchange in Gentilly de Bécancour, Québec's future steel city. Simultaneously linked for a five-party conversation, though hundreds of miles apart, Montreal's mayor, Jean Drapeau; Gilles Lamontagne, mayor of Quebec; Gérard Dufresne, who is mayor of Three Rivers, and the first citizen of Bécancour, Gaston Gaudet, exchanged greetings with Québec-Téléphone president Jacques Brillant, in Rimouski.

Québec-Téléphone vice-président, public relations, Maurice Martin placed the conference call connecting Bécancour with Montreal, Quebec, Three Rivers and Rimouski.

POLICE COMMUNICATIONS provided by Québec-Téléphone for the Quebec Provincial Police, include a mobile radio-telephone service connected to the public telephone system.

Quebec Justice Minister Claude Wagner here ratifies the service agreement with Québec-Téléphone officials, Yvon Côté, secretary, and B. A. Bénéteau, vice-president, operations.

5, 1965. Entitled "Introductory Course in Administrative Techniques", the training is designed to provide some 200 supervisory personnel with a clearer insight into job functions and human relations within the company. Results to date have been extremely encouraging.

Plans for the Future

Forecasts for long range construction programs indicate that very large ex-

REGIONS SERVED BY QUÉBEC-TÉLÉPHONE

Quebec's Largest Independent Telephone System

LEGEND

The dark green portions of the map indicate area served by Québec-Téléphone and its subsidiary, The Bonaventure and Gaspé Telephone Company, Limited.

--- Microwave system

..... Telegraph lines

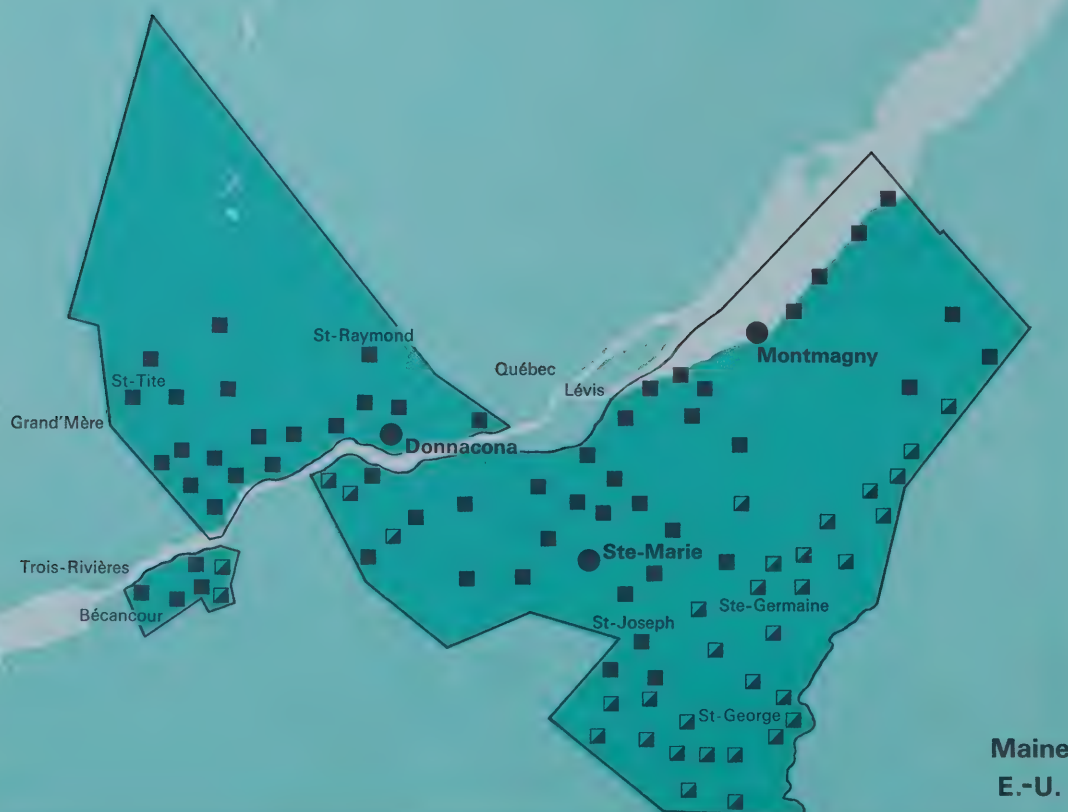
● Telecommunication centres

■ Telephone exchanges of Québec-Téléphone

▣ Telephone exchanges of connecting companies

◐ Telegraph offices of Québec-Téléphone

▲ Radio relays



The company at present operates 133 telephone exchanges, serving a population of approximately 525,000 inhabitants located in 317 municipalities.

Quebec's Largest Independent Telephone System



Maine
E.-U.



SPECIAL SERVICES MARKETING — These young ladies in the company's business office work for the special services marketing department. Their job is to bring to subscribers' attention the advantages of using push-button telephones, color instruments and a full range of specialized equipment.

CONTROL CENTRE — a Rimouski technician checks the long-distance network.

ENGINEERING DEPARTMENT draftsmen prepare plans and blueprints of the company's numerous telephone installations.



CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1965

**Auditor's report
to the shareholders**

We have examined the consolidated balance sheet of Québec-Téléphone and subsidiary as at December 31, 1965 and the consolidated statements of earnings, retained earnings and source and use of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and use of funds, when read in conjunction with the notes thereto, are properly drawn up so as to exhibit a true and correct view of the consolidated state of the affairs of the companies as at December 31, 1965 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Curran & Co.

CHARTERED ACCOUNTANTS

*Sauvigny, Bélair, Côté, Lacroix
et Associés*

CHARTERED ACCOUNTANTS

February 1966

CONSOLIDATED STATEMENT OF EARNINGS for the year ended december 31, 1965

| | 1965 | 1964 |
|---|---------------------|---------------------|
| Operating revenues | | |
| Local service | \$ 5,227,050 | \$ 4,668,154 |
| Toll service | 8,004,165 | 7,156,796 |
| Private wire service | 2,512,996 | 2,544,944 |
| Telegraph service | 183,825 | 178,455 |
| Miscellaneous | 259,276 | 286,081 |
| Total operating revenues | 16,187,312 | 14,834,430 |
| Operating expenses | | |
| Maintenance | 2,021,926 | 1,826,417 |
| Traffic | 2,045,601 | 1,933,694 |
| Commercial | 787,167 | 710,493 |
| Operating rents | 510,560 | 351,389 |
| Administration | 795,125 | 751,185 |
| Other operating expenses | 1,137,097 | 1,038,049 |
| Depreciation of fixed assets | 2,706,440 | 2,412,309 |
| Expenses charged to construction | (299,583) | (282,520) |
| Total operating expenses | 9,704,333 | 8,741,016 |
| Net operating revenues | 6,482,979 | 6,093,414 |
| Financial expenses | | |
| Bond interest | 1,522,602 | 1,513,331 |
| Interest on short term notes | 132,111 | 31,684 |
| Amortization of financing expenses | 45,316 | 44,899 |
| Total financial expenses | 1,700,029 | 1,589,914 |
| Earnings before provision for income taxes | 4,782,950 | 4,503,500 |
| Provision for income taxes | | |
| Current | 1,599,788 | 1,502,539 |
| Deferred | 897,755 | 820,373 |
| Total incomes taxes | 2,497,543 | 2,322,912 |
| Net earnings for the year | \$ 2,285,407 | \$ 2,180,588 |

CONSOLIDATED STATEMENT OF RETAINED EARNINGS for the year ended december 31, 1965

| | 1965 | 1964 |
|---|---------------------|---------------------|
| Balance — Beginning of year | \$ 5,764,902 | \$ 5,181,488 |
| Net earnings for the year | 2,285,407 | 2,180,588 |
| Reduction of income taxes of a prior year | — | 43,320 |
| | 2,285,407 | 2,223,908 |
| | 8,050,309 | 7,405,396 |
| DIVIDENDS | | |
| 4¾% preferred shares | 285,002 | — |
| 5% preferred shares | 149,091 | 156,689 |
| 5½% preferred shares | 65,921 | 265,131 |
| Common shares | 1,031,355 | 1,218,674 |
| | 1,531,369 | 1,640,494 |
| Commission on sale of common shares and on 4¾% preferred shares 1965 series | 423,750 | — |
| Premium and tax thereon on the redemption of 5½% preferred shares | 282,013 | — |
| | 2,237,132 | 1,640,494 |
| Balance — End of year | \$ 5,813,177 | \$ 5,764,902 |

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS for the year ended december 31, 1965

| | 1965 | 1964 |
|--|---------------------|---------------------|
| Working capital — Beginning of year | \$ 945,309 | \$ 2,996,696 |
| SOURCE OF FUNDS | | |
| Net earnings for the year before provision for depreciation, amortization of financing expenses and provision for deferred taxes | 5,934,916 | 5,458,168 |
| Proceeds from sale of first mortgage bonds | 4,950,000 | — |
| Proceeds from sale of short-term notes | — | 3,000,000 |
| Reduction of income taxes of a prior year | — | 38,602 |
| Net decrease in cash on deposit with trustee | 12,981 | — |
| Proceeds from sale of common shares | 1,258,330 | 27,108 |
| Proceeds from sale of 4¾% preferred shares, 1965 series | 7,640,000 | — |
| | 20,741,536 | 11,520,574 |
| APPLICATION OF FUNDS | | |
| Net cost of new construction and of acquisitions | 9,881,672 | 8,307,287 |
| Dividends | 1,531,369 | 1,640,494 |
| Redemption of 5½% preferred shares (note 2) | 5,095,753 | — |
| Redemption of 5% preferred shares | 129,020 | 195,580 |
| Redemption of bonds and sinking fund deposits | 549,000 | 431,904 |
| Payments of short-term notes | 2,450,000 | — |
| | 19,636,814 | 10,575,265 |
| Working capital — End of year | 1,104,722 | 945,309 |
| Current assets | 5,763,500 | 3,209,725 |
| Current liabilities | 4,658,778 | 2,264,416 |
| | \$ 1,104,722 | \$ 945,309 |

CONSOLIDATED BALANCE SHEET as at december 31, 1965

| | | |
|---|----------------------------|----------------------------|
| ASSETS | 1965 | 1964 |
| Fixed assets | | |
| Land, buildings, telephone plant, equipment, motor vehicles, telephone plant under construction — at cost and leasehold improvements at cost less amounts written off | \$72,555,016 | \$63,620,412 |
| Current assets | | |
| Cash | 613,356 | 1,256,871 |
| Subscribers' and other accounts receivable | 1,542,938 | 1,216,394 |
| Amount receivable from sale of first mortgage bonds (note 1) | 2,500,000 | — |
| Materials and supplies — at cost | 923,305 | 509,305 |
| Prepaid expenses | 183,901 | 227,155 |
| Total current assets | <u>5,763,500</u> | <u>3,209,725</u> |
| Sinking fund deposits | <u>9,931</u> | <u>22,912</u> |
| Financing expenses, less amortization | <u>616,607</u> | <u>611,922</u> |
| | <u>\$78,945,054</u> | <u>\$67,464,971</u> |

SIGNED ON BEHALF OF THE BOARD

Jacques Brilliant }

Norman Gendreau } DIRECTORS

SIGNED ON BEHALF OF THE BOARD

| | | |
|------------------|---|-----------|
| Jacques Brillant | } | DIRECTORS |
| Norman Gendreau | | |

| SHAREHOLDERS' EQUITY | 1965 | 1964 |
|---|---------------------|---------------------|
| Capital stock (note 2) | | |
| Authorized — | | |
| 1,196,166 preferred shares of a par value of \$20 each | | |
| 5,000,000 common shares without nominal or par value | | |
| Issued and outstanding — | | |
| 146,658 5% cumulative sinking fund redeemable preferred shares | \$ 2,933,160 | \$ 3,062,180 |
| 240,687 5½% cumulative sinking fund redeemable preferred shares | — | 4,813,740 |
| 400,000 4¾% cumulative redeemable preferred shares | 8,000,000 | — |
| 1,487,172 common shares | 6,844,806 | 5,522,726 |
| | <u>17,777,966</u> | <u>13,398,646</u> |
| Retained earnings | 5,813,177 | 5,764,902 |
| Total shareholders' equity | <u>23,591,143</u> | <u>19,163,548</u> |
| LIABILITIES | | |
| Long-term debt (note 1) | 31,924,500 | 27,473,500 |
| Demand and short-term notes (note 3) | 550,000 | 3,000,000 |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 1,060,043 | 1,053,850 |
| Bank loan | 2,500,000 | — |
| Dividends | 391,925 | 355,656 |
| Accrued bond interest | 289,021 | 261,471 |
| Income taxes | 417,789 | 593,439 |
| Total current liabilities | <u>4,658,778</u> | <u>2,264,416</u> |
| Accumulated depreciation on fixed assets | 11,601,228 | 9,841,856 |
| Deferred income taxes | <u>6,619,405</u> | <u>5,721,651</u> |
| | <u>\$78,945,054</u> | <u>\$67,464,971</u> |

STATISTICAL REVIEW OF THE PAST TEN YEARS

| | |
|--|-------------|
| | 196 |
| Revenues and expenses | |
| Total revenues..... | \$16,187,31 |
| Operating and general expenses..... | 6,997,89 |
| Depreciation of fixed assets..... | 2,706,44 |
| Operating Profit..... | 6,482,97 |
| Financial expenses..... | 1,700,02 |
| Income tax provision for current year..... | 1,599,78 |
| Income tax reduction applicable to future years..... | 897,75 |
| Net profit | |
| | \$ 2,285,40 |
| % of total revenues..... | 14. |
| Dividends | |
| On Preferred shares..... | \$ 500,01 |
| On Common shares..... | 1,031,35 |
| Retained earnings | |
| | \$ 754,03 |
| % of net profit..... | 33. |
| Earnings per share | |
| Preferred shares outstanding..... | 546,65 |
| Earned per Preferred share..... | \$ 4.1 |
| *Common shares outstanding..... | 1,487,17 |
| *Earned per Common share..... | \$ 1.2 |
| Times bond interest earned | |
| Before depreciation..... | 6. |
| After depreciation..... | 4. |
| Capital and surplus | |
| Funded debt..... | \$31,924,50 |
| % of total..... | 57. |
| Preferred stock..... | \$10,933,16 |
| % of total..... | 19. |
| Common stock, class "A" and surplus..... | \$12,657,98 |
| % of total..... | 22. |
| Plant investment | |
| Fixed assets..... | \$72,555,01 |
| Accumulated depreciation..... | \$11,601,22 |
| % depreciation to fixed assets..... | 16. |
| Per telephone in service..... | \$ 666.9 |
| Average number of employees | |
| | 1,60 |
| Facts about the system | |
| Number of telephones..... | 108,79 |
| Number of business telephones..... | 31,04 |
| Number of residential telephones..... | 77,74 |
| % of dial telephones..... | 71. |
| Number of exchanges..... | 13 |
| Monthly average of long distance calls..... | 798,92 |

*Allowing for split in common shares, 3 for 1 in 1955 and 2 for 1 in 1964.

| 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 | 1957 | 1956 |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| \$14,834,430 | \$13,599,345 | \$12,328,717 | \$10,585,572 | \$ 9,280,444 | \$ 7,955,144 | \$ 6,460,026 | \$ 5,561,255 | \$ 4,801,530 |
| 6,328,707 | 5,679,181 | 5,459,219 | 4,625,554 | 4,142,834 | 3,715,474 | 3,143,932 | 2,758,540 | 2,519,415 |
| 2,412,309 | 2,182,381 | 1,815,477 | 1,483,374 | 1,262,378 | 1,063,890 | 848,161 | 597,055 | 497,711 |
| 6,093,414 | 5,737,783 | 5,054,021 | 4,476,644 | 3,875,232 | 3,175,780 | 2,467,933 | 2,205,660 | 1,784,404 |
| 1,589,914 | 1,491,233 | 1,147,613 | 968,080 | 734,574 | 526,024 | 530,316 | 375,963 | 308,670 |
| 1,502,539 | 1,252,082 | 1,222,949 | 992,322 | 1,074,278 | 844,283 | 356,006 | 679,811 | 525,316 |
| 820,373 | 923,175 | 838,402 | 847,258 | 494,031 | 480,410 | 550,825 | 189,892 | 169,620 |
| \$ 2,180,588 | \$ 2,071,293 | \$ 1,845,057 | \$ 1,668,984 | \$ 1,572,349 | \$ 1,325,063 | \$ 1,030,786 | \$ 959,994 | \$ 780,798 |
| 14.7 | 15.2 | 15.0 | 15.8 | 16.9 | 16.7 | 16.0 | 17.3 | 16.3 |
| \$ 421,820 | \$ 431,104 | \$ 439,310 | \$ 418,425 | \$ 288,350 | \$ 295,597 | \$ 219,105 | \$ 195,987 | \$ 151,965 |
| 1,218,674 | 858,825 | 799,032 | 739,326 | 625,171 | 590,871 | 522,574 | 435,068 | 394,495 |
| \$ 540,094 | \$ 780,900 | \$ 606,302 | \$ 510,785 | \$ 658,372 | \$ 438,084 | \$ 288,526 | \$ 328,321 | \$ 233,552 |
| 24.8 | 37.7 | 32.9 | 30.6 | 41.9 | 33.0 | 28.0 | 34.0 | 30.0 |
| 393,796 | 403,575 | 411,915 | 417,856 | 275,513 | 281,964 | 287,076 | 193,148 | 196,972 |
| \$ 5.53 | \$ 5.13 | \$ 4.48 | \$ 3.99 | \$ 5.71 | \$ 4.70 | \$ 3.59 | \$ 4.97 | \$ 3.96 |
| 1,434,832 | 1,433,482 | 1,431,106 | 1,356,812 | 1,322,536 | 1,314,906 | 1,310,762 | 1,160,828 | 1,159,370 |
| \$ 1.23 | \$ 1.14 | \$ 0.98 | \$ 0.92 | \$ 0.97 | \$ 0.79 | \$ 0.62 | \$ 0.66 | \$ 0.54 |
| 5.6 | 5.5 | 6.2 | 6.4 | 7.3 | 8.4 | 6.5 | 7.7 | 7.7 |
| 4.0 | 4.0 | 4.6 | 4.8 | 5.5 | 6.3 | 4.8 | 6.1 | 6.0 |
| \$27,473,500 | \$27,903,000 | \$23,265,500 | \$17,544,000 | \$17,789,000 | \$12,966,500 | \$10,062,000 | \$10,149,000 | \$ 7,176,000 |
| 58.9 | 59.8 | 56.2 | 50.9 | 57.2 | 50.5 | 44.8 | 53.8 | 45.9 |
| \$ 7,875,920 | \$ 8,071,500 | \$ 8,238,300 | \$ 8,357,120 | \$ 5,510,260 | \$ 5,639,280 | \$ 5,741,520 | \$ 3,862,960 | \$ 3,939,440 |
| 16.9 | 17.3 | 19.9 | 24.3 | 17.7 | 21.9 | 25.6 | 20.5 | 25.2 |
| \$11,287,628 | \$10,677,106 | \$ 9,898,077 | \$ 8,554,775 | \$ 7,826,990 | \$ 7,096,018 | \$ 6,642,618 | \$ 4,839,574 | \$ 4,511,253 |
| 24.2 | 22.9 | 23.9 | 24.8 | 25.1 | 27.6 | 29.6 | 25.7 | 28.9 |
| \$63,620,412 | \$56,392,526 | \$48,463,675 | \$42,158,713 | \$35,822,796 | \$29,819,166 | \$25,900,298 | \$20,057,486 | \$15,002,180 |
| \$ 9,841,856 | \$ 8,508,948 | \$ 6,812,225 | \$ 5,597,855 | \$ 4,896,090 | \$ 4,230,297 | \$ 3,555,037 | \$ 2,984,937 | \$ 2,597,339 |
| 15.5 | 15.1 | 14.1 | 13.3 | 13.7 | 14.2 | 13.7 | 14.8 | 17.3 |
| \$ 641.54 | \$ 620.89 | \$ 582.29 | \$ 557.40 | \$ 531.34 | \$ 509.02 | \$ 497.67 | \$ 430.51 | \$ 368.50 |
| 1,577 | 1,470 | 1,376 | 1,243 | 1,149 | 1,057 | 1,068 | 1,028 | 950 |
| 99,168 | 90,825 | 83,229 | 75,635 | 67,420 | 58,582 | 52,043 | 46,589 | 40,711 |
| 28,463 | 26,450 | 24,694 | 22,713 | 20,937 | 19,393 | 17,907 | 16,842 | 15,662 |
| 70,705 | 64,375 | 58,535 | 52,922 | 46,483 | 39,189 | 34,136 | 29,747 | 25,049 |
| 66.7 | 64.9 | 61.6 | 57.3 | 56.0 | 47.7 | 44.7 | 43.0 | 39.9 |
| 130 | 125 | 127 | 123 | 121 | 118 | 118 | 117 | 115 |
| 731,371 | 643,997 | 574,708 | 527,034 | 478,210 | 417,269 | 394,402 | 374,106 | 336,900 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for the year ended december 31, 1965

1. Long-term debt

| | Issued | 1965 | Outstanding 1964 |
|---|---------------------|---------------------|---------------------|
| Details of long-term debt are as follows: | | | |
| First mortgage redeemable sinking fund bonds | | | |
| Series "B" 3½% due August 1, 1967 | \$ 1,050,000 | \$ 888,000 | \$ 904,500 |
| Series "C" 4% due August 1, 1967 | 1,000,000 | 856,500 | 865,500 |
| Series "D" 4¼% due May 1, 1972 payable in U.S. funds | 1,000,000 | 880,000 | 895,000 |
| Series "F" 5⅝% due December 1, 1984 payable in U.S. funds | 3,000,000 | 2,955,000 | 3,000,000 |
| Series "G" 5½% due October 15, 1982 | 5,000,000 | 4,617,000 | 4,699,000 |
| Series "H" 5½% due June 1, 1987 | 6,000,000 | 5,640,000 | 5,820,000 |
| Series "I" 6% due October 15, 1990 | 5,000,000 | 5,000,000 | — |
| | <u>22,050,000</u> | <u>20,836,500</u> | <u>16,184,000</u> |
| General mortgage sinking fund bonds | | | |
| Series "A" 5¼% due May 1, 1968 | 3,000,000 | 2,673,000 | 2,738,500 |
| Series "B" 5% due October 1, 1976 | 1,000,000 | 888,000 | 918,000 |
| Series "C" 6% due November 1, 1977 | 3,000,000 | 2,735,000 | 2,768,000 |
| Series "D" 5¾% due April 1, 1983 | 5,000,000 | 4,782,000 | 4,850,000 |
| | <u>12,000,000</u> | <u>11,078,000</u> | <u>11,274,500</u> |
| First mortgage serial bonds of subsidiary company | | | |
| Series "A" 4% maturing November 1, 1966 and 1967 .. | 100,000 | 10,000 | 15,000 |
| | <u>\$34,150,000</u> | <u>\$31,924,500</u> | <u>\$27,473,500</u> |

1. LONG-TERM DEBT Under the provisions of the trust deeds securing the first mortgage bonds and general mortgage bonds of Québec-Téléphone, additional first mortgage bonds and general mortgage bonds may be issued from time to time in unlimited amounts, provided compliance is made with certain restrictive conditions of the respective trust deeds.

\$5,000,000 principal amount Series "I" bonds were authorized and issued during the year and \$2,500,000 principal amount were delivered and paid for; the balance was delivered and paid for on January 14, 1966.

2. CAPITAL STOCK

The following changes in the capital stock of the company took place during the year:

- a) 400,000 preferred shares of a par value of \$20 each designated as 4¾% cumulative redeemable preferred shares of 1965 series were issued at par for cash.
- b) 240,687 5½% cumulative redeemable preferred shares of a par value of \$20 each were redeemed, 976 of such shares through the applicable sinking fund and 239,711 of such shares from the proceeds of the issue referred to in (a) above.

- c) 50,000 common shares without nominal or par value were issued for cash at \$25.50 each.

- d) 6,451 5% preferred shares were redeemed through the applicable sinking fund.
- e) 4,382 common shares are reserved for issue pursuant to the Employees Stock Option Plan upon payment of \$20.08 per share, payable in 40 monthly instalments. An additional 7,047 common shares are reserved for issue pursuant to the plan upon payment of \$23.18 per share, payable in 92 bi-monthly instalments.

3. DEMAND AND SHORT-TERM NOTES

Demand and short-term notes aggregating \$550,000 are reflected as non-current liabilities as they represent borrowings in anticipation of long-term financing.

4. GUARANTEE OF EMPLOYEES' MORTGAGE LOANS

To assist its employees in the acquisition of dwellings, the company has guaranteed loans secured by hypothec on employees' dwellings for an amount of \$103,873.

5. SINKING FUNDS

Sinking fund payments in 1966 in respect of preferred shares and long-term debt amount to \$111,811 and \$185,860 respectively.

TELEX dial teletypewriters or teleprinters enable typewritten messages to be transmitted over the telegraph network at speeds of up to 100 words a minute. Merely by dialing the required number, subscribers can route messages anywhere in Canada, the United States, Mexico and even overseas by the Canadian Tel-Text Service.

PRIVATE MOBILE RADIOTELEPHONE permits direct communication between a fleet of vehicles and a control centre, and enables individual vehicle operators to communicate with each other. Mobile telephones can operate effectively over a range of up to 25 miles, depending on the terrain.

TELEVISION — Many Canadian TV stations are associated with a telephone company operating centre. This control panel is used to monitor TV signals, test signal levels and to trace and correct transmission troubles.

The Rimouski technician shown here is monitoring a CBC telecast from Montreal which is instantaneously transmitted over Québec-Téléphone facilities to station CKBL-TV in Matane.





QUÉBEC-TÉLÉPHONE ANNUAL REPORT 1965



QUEBEC'S LARGEST INDEPENDENT TELEPHONE SYSTEM
